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March 19, 2001

BY HAND

RECEIVED

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room TW-A325
Washington, D.C. 20554

Re: ***Ex Parte Presentation***
In the Matter of Provision of Directory Listing Information Under the Telecommunications Act of 1934, As Amended, CC Docket No. 99-273

Dear Ms. Salas:

Enclosed for filing is a letter from Peter Meyer, CEO of Telegate, Inc. to Gregory Cooke, Assistant Division Chief, Network Services Division, Common Carrier Bureau. Pursuant to section 1.1206(b)(1) of the Commission's rules, 47 C.F.R. §1.1206(b)(1), two copies of this letter are being provided to you for inclusion in the public record of the above-referenced proceeding.

Please contact me if you have any questions.

Sincerely,

Gil M. Strobel

Enclosures

cc: Gregory Cooke (w/o enclosures)

0+1

telegate:

March 19, 2001

BY HAND

Gregory M. Cooke
Assistant Division Chief, Network Services Division
Common Carrier Bureau
Federal Communications Commission
445 Twelfth Street, SW
Room 6-A432
Washington, D.C. 20554

Re: ***Ex Parte Presentation***
In the Matter of Provision of Directory Listing Information Under the Telecommunications Act of 1934, As Amended, CC Docket No. 99-273

Dear Greg:

Thank you for taking the time to meet with me on Wednesday. I am writing to follow up on some issues that were raised during our meeting and to review the key issues involved in promoting competitive directory assistance (DA) services. As we have discussed, the primary barrier to effective retail competition for DA services is the monopolization of the 411 code by incumbent carriers. In considering how best to remedy this problem, the Commission should seek comment on alternative approaches, including the use of 411 presubscription and the introduction of uniform dialing codes.

411 Presubscription

The Commission should seek comment on the desirability of 411 presubscription. For example, 411 presubscription has the benefit of increasing consumer choice while preserving the use of 411 for DA services. The Commission should also seek comment on what the incremental costs carriers might incur in implementing 411 presubscription (*e.g.*, for network upgrades), and how those costs should be recovered. The Commission will then be in a position to weigh these costs against the benefits consumers will gain from increased competition in the multi-billion dollar DA market. The Commission should also ask parties to comment on an appropriate timetable for implementing 411 presubscription, including how and when consumers should be notified of, and educated about, the new system. In addition, the Commission may want to seek comment on issues regarding the costs and benefits of possible safeguards against slamming and on the effect, if any, that the proposed changes in DA services might have on the roles state commissions have traditionally played in certifying providers, handling consumer complaints and otherwise monitoring and regulating DA providers.

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telegate:

Uniform Codes

The Commission should also seek comment on the feasibility and desirability of alternatives to 411 presubscription, such as adopting uniform codes for all DA providers. For example, uniform codes have the benefit of maximizing consumer control and eliminating slamming concerns while reducing the competitive advantages enjoyed by the incumbents. The Commission should seek comment on whether competition can flourish if incumbents retain monopoly control over the existing 411 code. Parties may want to comment on experiences in other countries, such as Ireland and Germany, where uniform codes have proven to be a key element in the rapid development of competition for retail DA services. In seeking comment on the potential costs of uniform codes – including software development and possible switch upgrades – the Commission should ask parties to consider the trade-off between speed of implementation and lower costs. The Commission should also explore whether there are any existing codes that could be set aside for DA providers, or whether new codes will be needed. Finally, as with 411 presubcription, the Commission should seek comment on the appropriate timetable for implementing uniform codes – including the phase-out of 411 – and the best method of notifying consumers of new choices in DA service providers.

In response to questions that were raised at our last meeting, I am also attaching a copy of the comments that Telegate recently filed in response to Oftel's consultation on access codes for DA services. As noted in the attached comments, while competitors have reportedly captured 30-40 percent of the market in Germany and Ireland, both of which introduced uniform codes while eliminating the existing default code.

telegate:

Thanks again for your time. Please let me know if I can be of further assistance in answering any other outstanding questions.

Sincerely,

Peter Meyer/EMS

Peter Meyer
CEO

Enclosure

cc: Rodney McDonald
Dennis Johnson
Pam Slipakoff
John Vu
Magalie Roman Salas

TABLE of CONTENTS

TELEGATE RESPONSE TO OFTEL CONSULTATION ON ACCESS CODES FOR DIRECTORY ENQUIRY SERVICES

This submission sets out Telegate's response to Oftel's consultation of November 2000 on access codes for directory enquiry services (DQ). Telegate is an independent DQ provider based in Germany offering DQ services in Germany, Spain, Italy, and the US. Telegate serves about 500 million people worldwide. Telegate wishes to enter the UK DQ market in order to allow UK consumers to benefit from the innovative and high quality DQ services it has developed and has offered in other countries which have already moved to liberalise such services and encourage competition. Telegate welcomes Oftel's intention to aid the introduction of competition into the UK market and the opportunity to present its views on how this can best be done.

Executive Summary

The following bullet points set out in brief Telegate's position in respect of the questions posed in the consultation. A fuller analysis of the questions and evidence supporting Telegate's views can be found below.

- Telegate believes that Option 3 (opening a new 118XX(X) range for DQ with no default) is the only way in which competition can be introduced effectively and upon a level playing-field in respect of all parties interested in providing such services (Q1). Only Option 3 provides sufficient incentives to potential DQ service providers to actively compete for customers.

- The withdrawal of 192 will benefit consumers highly because this will be the only effective way to achieve open competition between different DQ providers. This is because retention of 192 will give an unfair advantage to the DQ providers chosen by particular access operators. This is because 192 is traditionally associated in the UK with DQ services and is therefore easier to remember and dial than the new 5 or 6 digit numbers that would be allocated to alternative DQ providers (Q2).

- The experience of Telegate in other countries which have sought to liberalise the DQ market is that encouragement of new entrants, and in particular new entrants who specialise in DQ provision (rather than offering it alongside core voice telephony services), has a dramatic effect in improving the quality of DQ services provided across the industry as well as increasing the choices of types of service available to different types of consumer.

- For similar reasons, Telegate believes that Oftel should not introduce a new default access code. This is because, although the user of DQ services would need to dial a number similar to the default to choose an alternative provider, it would still offer an advantage to all telecoms operators and particularly the incumbent over other DQ service providers. (Q3).

- Other European countries which have changed their DQ access codes have shown that in practice there are sufficient available codes in a five digit system. For example, in Germany, which is a larger market than the UK for telecommunications services generally, in the past 3 years or so since introduction of a new five digit number range for DQ around 50 of the 90 available numbers in that range have been allocated. In fact only 20 of these are in general use. It would therefore not be unreasonable to expect that using a five digit range in the UK would not lead to scarcity of numbering for DQ providers, particularly if Oftel were to ensure that numbers were allocated on a 'use or lose' basis as Switzerland recently did. (Q4).

- Given that in Telegate's opinion there should be no default access codes for DQ services it follows that the issue of pre-selection of DQ service providers does not arise. However, were the results of this consultation process to lead to Oftel adopting one of the other options proposed, it might be argued that preselection of DQ operators should be available from the outset. As DQ services (and others using short codes) are not included within the functional specification for Carrier Preselection (CPS), and due to the long timescale apparently required for CPS to be implemented it would be better not to adopt a solution in relation to this consultation which was dependent upon amending the specifications of CPS to remedy distortions in the competitive environment that were created by it. Even if it were possible to include DQ calls in CPS without delaying the timetable for implementation of CPS or liberalisation of the DQ market, Telegate believes that doing so would not benefit consumers. This is because it would extend the unjustifiable protection that Options 1 and 2 offer at present to access operators also to CPS operators. This would make it more difficult for independent DQ service providers to enter the market and would therefore reduce the chances of consumers benefiting from full competition. (Q5)

- Telegate believes that 118XX(X) is preferable to 192XX(X) as this would make the UK numbering system for DQ consistent with that of other European countries which have liberalised their DQ markets as well as enabling DQ providers to operate using the same number across a variety of European countries. Using 118XX(X) would facilitate change by making the 192 available to advertise the new numbering range thereby facilitating the change. It would also facilitate UK consumers being able to access English language DQ services across Europe by using a familiar number type. (Q6)

- Telegate believes that the period of parallel running should be kept to a minimum. In Germany this was for a period of 15 months which was seen as sufficient to allow consumers to learn the new numbering system. However, as a shorter parallel running period was considered to be appropriate by Oftel in relation to the much more extensive changes involved in the recent National Code and Number Change, it would be reasonable to choose a shorter period. Telegate believes that this would be facilitated if, during the parallel running period, customers dialling 192 were to hear a recorded message informing them of the changed numbering and giving the option of calling two of the new DQ numbers, chosen randomly and in equal proportions. (Q7)

- Telegate believes that the new number range should be advertised by those parties wishing to offer DQ services. From a commercial perspective there would be sufficient incentives on such businesses to invest in advertising the new numbers as it would be essential for new entrants to do so and would be prudent for incumbent DQ providers in order to retain customers. Only Option 3 provides sufficient incentives upon the industry to advertise their services adequately. An industry-wide scheme would place a disproportionate burden upon new entrants who might be diverted from investing in advertising their own services by the need to contribute and participate in the industry scheme. This would in turn reduce the chances of commercial success of new entrants and therefore reduce the likelihood that consumers would feel the benefits of competition. (Q8)

- Although in principle the benefits of increased competition in the DQ market should be readily accessible by all users, including those who use payphones to access such services, Telegate appreciates that upgrading all old payphones to be able to access the new number range may be a costly and time-consuming process. Prior to requisite upgrades being made in the ordinary course of events "user confusion" could be minimised by labelling "old" payphones so that it was clear what numbers needed to be dialled for access to DQ. The problem about access to alternative services could be alleviated for payphones if the recorded message, which Telegate suggests should be played on 192 during the parallel running period, included a call forwarding option when accessed from payphones. (Q9)

- Telegate believes that numbers in the new DQ number range should be allocated on the basis of a lottery of interested parties, with entrants being able to select the number of their choice from the range in the order in which they are drawn in the lottery; e.g. the winner of the lottery would have a free choice of all of the available numbers, the second placed party would then be able to choose any of the remaining numbers (ie. not including that chosen by the winner) etc... (Q10)

- Telegate believes that the CBA provides a good prediction of the development of the DQ market in terms of identifying the right trends. However it is insufficient in that it does not take into account the value of improvements in the range and quality of services that true competition will deliver, nor does it look at other benefits, such as in relation to increased employment opportunities. Telegate also feels that the CBA's assumptions as to usage, calls generated by DQ, call suppression and user confusion are excessively negative and not supported by the evidence available relating to similar measures undertaken in other countries. In addition, the CBA sets the number of network calls generated by a DQ call at an arbitrarily low level. (Q11)

Telegate's response to the consultation

1. INTRODUCTION

1.1 The importance of DQ services in the overall scheme of services, which consumers have a right to expect and need, cannot be underestimated. This is clear from the provisions on DQ services and their characterisation as services falling under the Universal Service Obligation within a number of European Directives as well as the obligations on all PTOs licensed in the UK to make DQ services available to their subscribers. Telegate believes that Oftel's intention to liberalise the provision of DQ services and to encourage new entry is an important next step in recognising the key role that DQ services have in making available to consumers the best possible communications services. However, this also emphasises the importance of ensuring that any measures purporting to liberalise the DQ market should be effective in doing so and that they should open up the prospect of the widest range of long-term consumer benefits possible. Only this altered approach to DQ will lead to DQ services being invested in and improved beyond the levels that are required at present from a pure regulatory compliance standpoint.

1.2 In order to achieve such results, it could only be fair to introduce a system that will give every runner the same chances in the race. Giving the strongest runners an advantage must necessarily discourage all the other participants from taking part in the competition to provide the best possible DQ service for the lowest price. An advantage for telecommunications operators[1] will not lead to competition in the DQ market.

1.3 Telegate believes that Option 3, that is, opening a new 118XX(X) range for DQ services without a default code, provides the only effective means for introducing competition into the UK DQ market. It strongly agrees that the benefits described at paragraphs 2.20 and 2.21 of the consultation document will accrue following adoption of Option 3. This option would create the best conditions for competition on a level playing field between a variety of DQ providers and would thus be most likely to deliver clear benefits to *all* consumers, including domestic, business and government users.

1.4 Options 1 and 2 are inadequate and inappropriate because their actual effect will be to lead to the creation of no new consumer benefits. This is because by featuring different classes of DQ access number, either the 192 default or a new default in the new DQ number range, they will disproportionately benefit the DQ services of telecoms operators over those of independent DQ providers. By skewing the market entry conditions in this way it is highly unlikely that effective competition will be generated and therefore none of the consumer benefits identified in the consultation paper as being likely to flow from competition will in fact accrue.

[1] Whether they are access operators or CPS operators or both.

2. THE CURRENT LEVEL OF DQ COMPETITION

Telegate's experiences in attempting to compete in the UK DQ market as it is currently organised highlight the imperative need for Oftel to introduce competition. Currently, Telegate has to offer its DQ service through a 10-digit PRS number which is highly disadvantageous as compared to the existing 192 code of telecoms operators (and also the 197 and 143 that Vodafone and Cable & Wireless use for DQ services on their networks). This means that independent DQ providers are encumbered by having a long and unmemorable number that is furthermore tainted by the "porn and tarot" image of PRS services generally. Using a PRS number also means that Telegate is tied to a rigid pricing scheme, cannot offer Enhanced Directory Enquiry services such as call completion, reconnect etc. and is furthermore required to comply with additional regulation in the form of strict ICSTIS conditions. Also, the incumbent charges a high percentage (up to 40 percent) of the competitors revenue for the rental of the number and other services (revenue sharing). Last but not least, the name of the DQ service does not appear on the bill but will be lumped with all other premium rate services, which makes branding and marketing fairly difficult.

Wholesale competition in the UK DQ market is currently only concerned with price competition. Business is won by the company which provides the cheapest service. The less time spent with the customer the cheaper the service is. Therefore getting rid of the customer by hastening him through the process, giving out the first available number and automating more and more is encouraged by focusing purely on wholesale price; e.g. BT obviously is planning full automation of its DQ service following a trial in 2000 in the Ipswich area. This means that consumers cannot benefit from other forms of competition in relation to service quality, accuracy, innovation and new features. This is particularly disadvantageous to consumers because the wholesale price benefits are not passed on to the customer. This is because there is no price competition at the retail level to prevent the profit margin remaining unjustifiably high. Therefore it is necessary to create appropriate conditions for competition at the retail level. Telegate believes that this can only be done successfully by adopting Option 3.

Furthermore, competition in wholesale DQ leads to consumer confusion because different wholesale providers offer different services. In consequence one day, e.g., call completion is available, the other not, and then again it is available. All due to a change in wholesale providers, which is invisible to the consumer.

3. BENEFITS OF OPTION 3

3.1 As set out in this submission, Telegate believes that Oftel should adopt the policy which will lead to the most free, fair and open competition.[2] In Telegate's opinion,

[2] Telegate broadly agrees with the CBA as to the benefits of Option 3 although it feels that the CBA is excessively conservative in its estimates as to the level and impact of such benefits and in particular that this is due to an over-emphasis on the prospects of user confusion and related call suppression being extrapolated too far into the future. This is discussed in more detail in the answer to Q11 found at the end of this document.

which is supported by the evidence presented in this submission, Option 3 is the most likely to lead to such competition. Competition will lead to the maximum level of consumer benefits in at least the following ways:

- better pricing; the introduction of competition will lead to a greater degree of differentiation of services and pricing to match the service as well as price competition between similar services,

- improvements to the quality of service; in a competitive environment it will be important for DQ operators to improve the friendliness and helpfulness of operators and seek to provide more accurate information than currently available.

- differentiation of services so that users can choose to call a service provider tailored to their specific requirements,

- a greater variety of services, rather than the "one size fits all" approach currently available,

- innovation leading to new service types to meet consumer demand.

3.2 In addition to these direct consumer benefits, there are a number of other economic and social benefits which would follow from the adoption of Option 3. These include the potential for a significant increase in employment opportunities which would follow from the successful establishment of new businesses providing DQ services. This would also have the effect of increasing the level of training and education of workers in the UK as there would be a need for such new entrants to train new staff. This training would include training in new high technology IT applications thus making them fit for the information age. This would not only benefit employees of new entrants but would also have the potential to benefit employees of existing DQ providers who would need to respond to improvements in technology and training introduced by new entrants.

3.3 Competition will lead to sustained investment in infrastructure and people. Instead of keeping with old equipment, companies in a competitive environment will need to invest every year in new and better equipment that will give them a competitive edge. Also, people will be trained in modern IT equipment continuously instead of being left on their own after the first and often last training on outdated computer equipment.

3.4 The development of DQ services tailored to minority groups such as groups with a different language (e.g. Welsh) would be another example for such social benefits. For example, Telegate was the first company in the German market to establish a Turkish language DQ service to serve this large underserved community. The incumbent Deutsche Telekom followed shortly afterwards with a similar service for the Turkish minority in Germany.

3.5 The benefits to employment and training of competitive DQ services can be seen from the experiences of other countries following their liberalisation of their DQ markets. For example, in Germany and Italy, Telegate has already received awards such as Employer of the Year and the Greenfield prize for the foreign company with the most innovative business idea and the potential to create high employment. Also in the UK, Telegate has already created, in anticipation of the opening up to the UK DQ market to competition, a Call Centre in Dumfries, which will employ a possible 300 people. Another independent DQ provider, Conduit, has done the same in Cardiff (1400 possible employees, according to Conduit).

4. WHY CAN THESE BENEFITS NOT BE OBTAINED THROUGH THE OTHER OPTIONS?

4.1 The adoption of Options 1 or 2 would reduce the chances of these benefits being created as they would both lead to an imbalanced and distorted market with a disproportionate favouring of the status quo by the use of a default code. This would reduce the commercial attractions of entry into the market and put the onus on delivery of the benefits of competition upon existing DQ providers (telecoms access operators). As there would in such circumstances be minimal competitive pressure upon existing DQ providers to do so, neither option could be expected to deliver the benefits Oftel has identified as being desirable.

4.2 The only possible justification for having a default code, whether it is the existing 192 code (Option 1) or a new code in the same format as the new number range (Option 2) is that this will reduce the disbenefit to consumers caused by "user confusion". As argued below, Telegate believes that not only is the risk and impact of "user confusion" overstated but also that the use of a default code would so substantially reduce the chances of successful competition that it would be likely to minimise the chances of consumers benefiting from any significant improvements to their DQ services.

5. THE EFFECT OF "USER CONFUSION"

5.1 In Options 1 and 2, the consultation document considers keeping the current default code 192 or establishing a new default code in order to avoid "user confusion." The default code is intended to make it easier for users to use this important service. Telegate, however, believes that it will be easy for everyone to learn and use the new numbers.

5.2 First, the marketing efforts of new and old providers will make the new numbers known very quickly. These marketing efforts will include e.g. stickers that can be attached to the user's phone. This is especially helpful for older people. Secondly, after a period of parallel running, the numbers will be in every phone book and

therefore available to every home and business user. Thirdly, public payphones will have stickers with DQ numbers and mobile phones will have DQ numbers pre-programmed. This means, that practically in every situation the desired DQ number will be easily available.

5.3 Telegate's experience in Germany shows that good marketing can make the new numbers known to the vast majority. For example, after only three years of competition, 80 percent of Germans know Telegate's number. 90 percent know Deutsche Telekom's DQ number and all German's know at least one of the two numbers. The Austrian incumbent, Telekom Austria found that upon the introduction of a new DQ number range only 1% of DQ calls were misdialled to the old number. The experience of Telegate and other independent DQ providers in liberalised countries shows that the perceived short-term consumer detriment of confusion and possible misdials is overstated. In any case, such confusion can be countered by good marketing of the new services, which is commercially essential for any competitor seeking to establish a DQ business.

6. THE EFFECTS OF RETAINING A DEFAULT CODE

General issues

6.1 Retaining a default code would more specifically be unsuccessful in introducing competition for the following reasons:

- Telecoms access operators (who currently are required to provide DQ services and whose services would be reached by dialling the default code) have no significant incentives to provide the best quality DQ service as consumers are unlikely to choose the provider of their 'core' basic telephony service on the basis of the quality of DQ service provided. It is highly likely that quality of DQ service provided would rank significantly below matters such as the price of phone calls (local, national, international etc...) in determining a consumer's choice of telecoms operator.

- Similarly, as such operators might be expected principally to offer DQ in order to comply with their PTO (or other) licence obligations, there would be no incentive to introduce innovative services as these would not lead to improved compliance or be likely to attract significant numbers of new telephony customers.

- As for such operators, DQ would form a small part of the overall bundle of services, it is unlikely that there would be any commercial incentives to price DQ competitively. On the other hand, there is an incentive to maximise profits by minimising costs and maximising the price, as is currently the practice in the UK.

- Given that DQ would play a minimal role in consumers' choice of telecoms operator there would be little incentive for telecoms operators to advertise their own specific DQ access code in addition to the default.

  For these reasons it is clear that only the entry into the DQ market on level terms (i.e. under Option 3) of independent DQ providers would lead to competition and the benefits identified which would flow from such competition. Such entry would also stimulate competition from the DQ services of telecoms access operators as can be easily observed in Germany where Deutsche Telekom's DQ service improved considerably under competition.

Impact of Option 1 (retention of 192)

6.2 Option 1 is clearly inadequate because it requires two different and unrelated number types for DQ services. Given the existing user familiarity of 192 this would place unjustifiable hurdles in the way of other DQ providers who would need to promote a different style of number, which would be less immediately memorable and take longer to dial. It would still be an improvement upon the current situation, but only a very minor one in that the new DQ numbers would be shorter and in a more unified format than those currently used by alternate providers (e.g. using PRS or NTS numbers). However, these slight benefits would almost certainly be outweighed by the certainty of "user confusion" caused by the need to remember two types of number. Telegate believes that it cannot be in the consumer's interest to create one sort of "user confusion" to remedy another.

Impact of Option 2 (new default in same range as other DQ access codes)

6.3 Option 2 removes the problem of requiring consumers to remember two types of number, but is also inadequate for the purposes of leading to full and free competition. This is because it continues to entrench the position of the user's access operator's choice of DQ provider by the continued use of a default code. This would be likely to stifle new entry because it would both not be unreasonable and probably required under their existing licence obligations, for access operators (most importantly BT) to publicise the new default code widely. This would be likely to have the effect of creating the perception that the new default merely replaced 192 and would make it disproportionately difficult for DQ providers who were not telecoms access operators to establish their presence.

6.4 There would also be an issue as to a lack of transparency as to the identity of the DQ provider being 'chosen' when a customer dialled the new default; e.g. by dialling the same number on a BT fixed line and one provided by another operator, the user may be connected to a service operated by a different DQ provider. If such a customer particularly wanted to reach the BT DQ service from such other phone they would need to learn a new number. The "user confusion" that would be thereby caused would be likely to eliminate the benefits of competition as each access operator may

need to advertise two numbers. The alternative would be to encourage them not to seek calls from customers connected to other networks, which in itself is the opposite of competition.

7. EFFECTS OF WITHDRAWING DEFAULT CODES

7.1 As follows from the above, withdrawing the default code will highly benefit consumers. Only competition will bring benefits to the consumer as DQ service providers compete to bring consumers the best possible DQ service at the lowest price. Telegate believes that only a system without a default code at all (Option 3) would highly benefit consumers. All of the arguments raised above also apply in relation to the introduction of a new default under Option 2.

Is a new default code needed?

7.2 It might be argued that a new default code is necessary because not all new DQ numbers will be available to callers calling from all networks. Experience in other countries shows that after a very short while, DQ service providers manage to conclude interconnection agreements with all such operators.

7.3 Given that there is already in place an established process for dealing with interconnection disputes, Oftel should not need to adopt measures in the DQ field which derogate from this. If telecoms access operators were to unreasonably refuse to enter into such interconnection agreements with independent DQ providers this would highlight a broader issue of competition and interconnection policy, which should be dealt with as such by Oftel and the OFT. In any case this would not be a justification for introducing a new default code as even in the event of all telecoms operators behaving in an anti-competitive manner and refusing to interconnect with independent DQ providers they would already have interconnection rights and obligations in respect of other telecoms operators and therefore their customers would at least be able to access the DQ services of other such operators. It may be that in this unlikely case Oftel would consider it to be appropriate to require telecoms access operators to enter into interconnection agreements with independent DQ providers. However, Telegate believes that there will be sufficient commercial incentives to interconnect freely with independent DQ providers for there to be little likelihood that telecoms operators would behave in such an anti-competitive manner.

7.4 Only Option 3 will guarantee the market entry of independent DQ service providers. Only these have an intrinsic motivation to serve the consumer needs. As long as any default exists, there is no incentive for DQ service providers to enter the market. This is because they would not be able to compete against a default that is either already engrained in peoples mind (like 192) or otherwise in an advantageous position by being, (a) the best number in the range and (b) advertised jointly by all telecoms operators. However, it might also be the case that a new default code is not advertised

at all as operators do not want to confuse the user by advertising two numbers. Such a situation would suggest that there is little point in devising a new default code.

Experience in other countries

7.5 The efficacy of removing default codes in encouraging competition is also shown by the experience in Germany and Ireland. Only after the old default code was withdrawn in those countries was competition able to develop.

7.6 Today, the competitors to Deutsche Telekom in Germany have about a 30 percent market share; in Ireland this is up to 40 percent (according to Conduit). Conduit, the first Irish competitive DQ service provider gained 10 percent market share in the first year and had a steep increase of its call volume after the Irish default code 1190 was withdrawn completely. This shows that consumers value their choice and that they want that choice. But it shows also that competitors only have a serious chance when the convenient default code is withdrawn. In Germany withdrawal of the default code led to a service that was faster, friendlier, easier to access, more accurate etc. It also had a positive impact on the service level of the incumbent, which responded to the new competition. The stronger competition triggered by the withdrawal of the default therefore clearly benefited consumers in Germany.

7.7 On the other hand, in countries such as Austria (where the call volume fell by nearly 40 percent in the last 5 years because of the poor quality of service), no competition developed and the benefits for consumers remained at zero, even though the default codes there were in a similar format to the codes allocated to independent DQ providers[3]. The same is true for Portugal and Denmark. However, even though every telecommunications operator in Portugal must provide a DQ service, no competition developed. There were therefore no benefits for the consumer.

7.8 Therefore, we believe, that in the UK also, benefits for consumers will only be enjoyed if the default code is withdrawn.

8. SHOULD DQ CALLS BE INCLUDED IN CPS?

8.1 Oftel considers the possible inclusion of DQ calls in the basket of call types which could be offered by a CPS operator in chapter 3 of the consultation. It concludes that it is not appropriate to consider CPS in relation to Option 3 because there is, under that option, no difference in the effort required of consumers to dial the access operator's DQ service, that of a CPS operator or any other DQ provider. Telegate agrees with this position. Although Telegate also believes that Option 3 is the only option which will lead to competition it feels that it is necessary to consider in detail the impact that CPS might have if either of the other options were to be adopted.

[3] The default code for the Universal Service Operator is 1180, with 1181 as a default for other telecoms operators. All other DQ providers use 118XY(Z) access codes.

Following such consideration it is clear that the issues raised by CPS in relation to the other options highlights further reasons why those other options are not appropriate.

8.2 Oftel's view in the consultation document is that CPS of DQ only provides significant benefits in relation to Option 1 in that it allows CPS operators' DQ services to be accessible using the short and memorable 192 code rather than 118XX(X) for other types of operator. However, Oftel also makes it clear that it would have concerns about any change to the CPS "all calls" specification which would impact on the timetable for implementation of CPS in the UK. As DQ calls are currently not included in that specification and given the long and detailed process involved in implementing CPS to date it seems unlikely that including DQ calls in CPS could be done without adding at least some degree of delay to the process.

Why might CPS be desirable?

8.3 There might be reason to retain the 192 code (i.e. Option 1), presumably because of fears that a wholesale change of the numbering to 118XX(X) would be too confusing to the general public. As argued above, Telegate believes these fears to be overstated and that they under-estimate the sophistication of consumers of all types. However, if the hypothesis that there might be significant "user confusion" caused by any changes to the present situation, CPS for DQ might be seen to be an improvement over Option 1 as it would extend the advantage offered to access operators (i.e. being able to continue using 192 for their own DQ service) to CPS operators who had been selected to carry "all calls"[4] by a customer. This would reduce the number of potential providers disadvantaged by Option 1 to only those who were not also telecommunications operators.

8.4 There would also be some slight benefits for such operators under Option 2 (118XX(X) with a new default) as they too would be able to benefit from the new default. Under both options, as the number of potential DQ operators benefiting from use of the default would increase, the likelihood of confusion would be limited as the marketing efforts of a large proportion of DQ providers (access operators and CPS operators) might be likely to be targeted on the default.

Disadvantages of CPS

"User Confusion"

8.5 As recognised by Oftel, there would be a risk that the present lack of transparency as to which DQ provider is providing the service would continue (see paragraph 3.5 of the consultation) and cause confusion; this would, however, also be the case if DQ calls were excluded from "all calls" CPS as consumers might believe that by choosing

[4] "All calls" is a misnomer as it does not in fact refer to all calls but excludes a number of call categories like 999/112 emergency calls, other Type A and C short code calls, operator specific numbers and calls to two ranges of unmetered internet access numbers.

such an option they would also be getting their DQ service from the CPS operator in any event.

Competition issues

8.6 Introducing CPS for DQ would have the effect of decreasing the prospect of new entry by specialist DQ providers. Telegate believes that Options 1 and 2 would, even without CPS, be inadequate to encourage or enable new entry into the DQ market. This is because those options give an advantage to the DQ operator chosen by the customer's access operator as the number to be used to access such DQ services is most immediately memorable. This is particularly strongly true for Option 1 in which case the number is 192, which is already well established and recognised as "the DQ number", but would also be likely to be true of Option 2 as access operators would need (in order to comply with their licence obligations) to advertise the new default code to their customers.

8.7 As the quality of DQ service is unlikely in itself to be a significant factor in making a consumer decide to choose a particular access operator or CPS operator, Telegate strongly believes that any measure which seeks to introduce competition and its benefits by relying on the efforts of access and CPS operators will be unsuccessful. Such operators will have little incentive to invest in new technologies, improve service quality or cost or innovate in the services offered as the likely return to them would not merit this if compared with the commercial return which might accrue to them if they invested the same time and money in other areas of their businesses (e.g. reducing international call costs).

8.8 If DQ is included in CPS this will have the effect of increasing the number of DQ operators who would both have few incentives to improve their services and at the same time be insulated from competition from specialist independent DQ providers. This would be the worst of both worlds and would be a strong deterrent to new entry. Telegate's experience in other countries has shown that the competitive discipline exerted by independent new entrants has been the driving force for improving the quality of services available generally from all DQ services. Therefore, deterring such new entry in this way would mean that UK consumers would be less likely to benefit.

Technical issues

8.9 It would be very likely that changing the functional specification of CPS to include DQ calls would lead to significant and substantial delays in implementation, both of a liberalised DQ market and also of CPS itself. It has taken over 3 years from the first requests for CPS to the present level of implementation. This process is still ongoing as the "all calls" option for CPS has not yet been implemented (this is due by the end of 2001). It is difficult to tell without detailed technical information whether this change would involve significant technical changes to the CPS specification which would result in delay in implementation. However, the distinct impression given by

BT throughout the process of implementing CPS is that there is necessarily a long lead time between making a technical change to the specification of CPS and implementing that change as this involves changes to the scheduling of the upgrade programme for BT switches to ensure that they have the capability to handle the new technical options.

8.10 192 is part of a range of numbers (Type A short codes) which are all currently excluded from "all calls" CPS. In layman's terms, the way in which BT switches are programmed to route CPS calls depends on them detecting the leading digit(s) of the number dialled. Most other common types of call following the rationalisation of the UK numbering regime in the National Code and Number Change are easily identifiable from the leading digits and number length (e.g. 07xxx xxx xxx for mobiles, 08xx xxx xxx for NTS calls, 02x xxxx xxxx for new style geographic numbers, no leading zero for local calls etc...). This would not be the case for 192 as it would be of the same format as other Type A codes and therefore it seems likely that new and more complex recognition algorithms would be needed to be programmed into BT switches to enable 192 to be handled as a call which could be carried by the CPS operator.

8.11 This would also be likely to be the case if there was a new default in the 118XX(X) range because there would be a similar difficulty in recognising whether the number dialled was a DQ operator's specific code or the default.

8.12 If these changes need to be made in order to include DQ calls in the CPS "all calls" option this would be likely to increase the cost of implementation of CPS. Further evidence would be required to see what impact this might have on consumers. However, if Oftel followed the cost allocation methodology adopted for the introduction of CPS generally (which seems highly likely) this would mean an increment on the charges for all calls capable of being carried using CPS (i.e. all calls of the categories to which CPS applies and which are carried by BT) as well as possibly an increased set-up charge for potential CPS operators. If DQ was a sub-option within "all calls" this could lead to further costs in setting up the service as it would introduce a further element in the confirmation slip and application procedure which would involve a cost to BT and the CPS operator itself as well as possibly leading to further costs if such a change also required modification of the processes and physical forms used. Such additional costs would need to be recouped in some way and would be likely to be recovered by operators from their customers, either as a transparent increase to the fees being charged for CPS generally or as an uplift to the charges generally paid. Without further in-depth economic analysis it is not possible to say what the extent of such increased charges might be.

8.13 Even if making this change would not lead to significant delays in implementation of CPS it would involve significant delay to the liberalisation of the UK DQ market as the implementation of "all calls" CPS is not scheduled to occur until December 2001. Telegate and other independent DQ operators would like to be able to enter the UK DQ market to offer their improved services much earlier in 2001 than that. If the

justification for having CPS is that it provides a balance between minimising "user confusion" and introducing competition this would suggest that it would not be appropriate to introduce new access codes until the CPS option was also in place[5]. However this delay would also have the effect of prolonging the period during which consumers are denied the choice and improvement in service type and quality which can only be achieved by the entry of new competition.

Conclusions

8.14 Adoption of either of Options 1 and 2 with CPS would both be likely to lead to delay in the introduction of competition for DQ services as well as substantially reducing the prospect of effective new entry. This would have a seriously adverse effect on the likelihood that consumers will be able to benefit from the improvements in DQ services that competition and competition alone can guarantee. For these reasons, Telegate believes that only Option 3 (for which CPS is not appropriate) is suitable to provide consumers with an acceptable level of benefits.

9. NUMBERING ISSUES

Oftel's obligations regarding number allocation

9.1 European Commission Directive 97/33 ("the Directive") requires[6] that:

"In order to ensure effective competition, national regulatory authorities shall ensure that the procedures for allocating individual numbers and/or numbering ranges are transparent, equitable and timely and the allocation is carried out in an objective, transparent and non-discriminatory manner."

9.2 This obligation upon Oftel means that the system for allocation of numbers to be adopted by Oftel following this consultation must comply with these requirements. The only reasons available for creating or perpetuating a different class of DQ operator which is to be treated more favourably than other DQ operators, as would be the case if either of Options 1 and 2 were to be adopted as set out above, are purely subjective ones (i.e. relating to questionable and non-objective estimates and assumptions about "user confusion"). As there are no objective reasons for adopting Options 1 and 2, Telegate believes that implementing such options would involve

[5] If the new number ranges are opened up prior to DQ being offered as a CPS option the risk of "user confusion" would be increased as consumers would need to adjust to two separate changes to the DQ access regime; firstly the introduction of a new range of numbers, which would be advertised by new entrants only and then the introduction of DQ provided by CPS operators. As CPS operators are in general existing telecommunications operators this would either mean that operators seeking to offer DQ as part of their CPS offering would hold back from launching their DQ service prior to the launch of full CPS (which would not be pro-competitive) or that they would need to advertise two different numbers at each stage (which would increase the likely "user confusion").

[6] At Article 12.

Oftel breaching its obligations under the Directive. Furthermore, as argued above, the adoption of either Option 1 or 2 would necessarily entail discrimination against a class of DQ provider, which itself would amount to a breach of the Directive's requirements. Given that the adoption of Option 3 would not expose Oftel to these risks, this is another reason why Option 3 is preferable to the alternatives proposed.

Which number range 118XX(X) or 192XX(X)?

9.3 118XX(X) is better from the perspective of consistency with other liberalised European regimes as well as in relation to consumers. Independent DQ providers, as well as telecoms operators providing DQ and other services in other EU countries are likely to want to be able to offer their customers the ability to access their DQ services using the same number in a number of countries. This would benefit UK consumers as they would be able to use the services of their preferred UK DQ provider by dialling the same number when they are visiting other countries.

9.4 Additionally, adopting 192XX(X) may make it impossible to retain the current default code for a period of parallel running. Telegate feels that some period of parallel running is desirable in order to minimise any possible user confusion as well as to give all players in the DQ market a window of time in which to market the launch of their services on the new range of numbers prior to the final change to the system.

Is a five or six digit access code preferable?

9.5 It might be argued that a six-digit code would provide capacity for the expansion of future services. However, experience from Ireland, Germany, Sweden and Austria indicates that a five-digit code is more than sufficient. The 90 numbers freed in each of those countries have proved more than enough to cope with demand from DQ providers. For example, in Germany about 50 numbers have been allocated, but only 20 are really in use. Austrian providers use only 7 of the 43 allocated DQ numbers. Even though they have freed about 180 numbers for DQ services. In Ireland only 8 of the 24 allocated are in use. Switzerland on January 2001, allocated 20 of 100 possible DQ codes.

9.6 Telegate's experience is that the convergence of different DQ services on one number will constrain demand for DQ access codes. That is, there is no evidence that DQ providers will seek or require more than one code each in order to provide services and therefore it is unnecessary to have a six-digit code. A six-digit code would also have a marginal effect upon the memorability of the new DQ numbers and may suppress competition to some extent as compared to a shorter five-digit code.

9.7 In order to ensure that there are sufficient numbers available in practice, Telegate suggests that a "use or lose" approach to number allocation and retention should be adopted by Oftel. This would mean that if a potential DQ operator failed to use a number within a reasonable timescale following allocation the number would be returned to the unallocated pool of numbers for reallocation to any new applicant. This would also incentivise DQ operators to launch their services rapidly after the

liberalisation of the market so as to enable them both to obtain the "best" new numbers and to ensure that they kept them. A similar approach was taken by Switzerland, which opened a new number range for DQ services in January 2001. In Switzerland DQ service providers who do not manage within two years to reach (and subsequently maintain) a market share of 5 percent, loose the number again.

Allocation of new DQ numbers

9.8 The fairest method for allocating new DQ numbers would be a lottery system. In the lottery, it would be established which company can choose its preferred number first. Then the second company can choose from the remaining numbers and so on. Afterwards the allocation should be on a first-comes-first-served basis. This would be preferable to any other method as it would place all operators on a level playing field in terms of their chances of being able to choose their preferred number with no preferential treatment for any DQ operator.

10. TRANSITIONAL PROVISIONS

10.1 Telegate believes that in the transition to full competition in the DQ market there should be a period of parallel running of the existing 192 number. This will give consumers the opportunity to become acclimatised to the forthcoming change whilst giving new entrants into the DQ market an initial window of opportunity to enter the market.

Parallel running

10.2 Parallel running should be done for the minimum period necessary. The parallel running period for the National Code and Number Change in the UK was only 6 months from the formal changeover date. This was a much more significant and pervasive change than that proposed in relation to DQ services. However, as there may be problems accommodating the proposed new range for calls from certain, older payphones it may be that it would be worthwhile to have a longer parallel running period from payphones in order to ensure competition in DQ calls from payphones in the transitional period during which BT will be upgrading those phones.

10.3 Germany had a period of 15 months parallel running when it went through its liberalisation process. Experience in Germany shows that this is enough time to educate consumers and that competition again increases after the complete withdrawal of the default code. Ireland had a period of parallel running of 1 year, and Sweden of 1,5 years.

10.4 Telegate believes that there should be a recorded voice announcement on the old default code during the parallel running period which would provide callers with information about the new numbering range and then two specific DQ numbers should be given out on a random basis of the whole pool of numbers at that time

allocated to DQ providers. This should be done in such a way as to ensure that each operational DQ number is announced the same number of times. The restriction to two numbers would make the message easy to understand and short, thereby reducing the costs.

Advertising of change to DQ numbering

10.5 If Option 3 is chosen, the evolving competition alone will provide for sufficient advertising of the new numbering ranges. Especially in the first phase, every DQ operator will invest heavily in marketing its own number, in order to secure the pole position in the race for market shares. But marketing efforts will be sustained on a relatively high level in order to gain further market share and to further engrain the new number in consumers' minds. These efforts will be complemented by consumer education on the 192 default discussed above during the parallel running period. After three years of competition Telegate's number was known by about 80 percent of German customers. 90 percent know Deutsche Telekom's DQ number and all German's know at least one of the two numbers.

10.6 Companies will also be able to advertise in prominent paper directories such as Yellow Pages. Therefore it would be best if Oftel were able to come to a decision on the outcome of this consultation and the allocation of new DQ numbers prior to the summer break as this is the time when advertising slots for these books must be booked (the deadline for booking such advertising slots is usually in June).

10.7 A central campaign, such as that undertaken for the National Code and Number Change would discriminate against new providers, who would have to spend disproportionate amounts of management time and effort as well as money in participating in the central campaign. This would detract from their ability to focus on marketing their own numbers and services and would therefore be likely to reduce the extent to which new entrants could compete effectively. The money that would need to be spent by new entrants contributing to a central fund would detract from that available to them for marketing their own services. This would put new entrants in a worse position than existing DQ providers who will already have direct contact with their telecoms customers. It could also lead to the possibility that new entrants may opt to delay their entry into the market if this would allow them to avoid being required to pay for a central campaign. This would have the effect of suppressing or distorting competition either by discouraging early new entry or by allowing later entrants to gain a "free-ride" on the efforts of parties who are quick to express and interest. A central campaign might also lead to increased "user confusion" as a joint campaign might seem inconsistent with the idea of differentiation of DQ services according to the provider.

11. COST BENEFIT ANALYSIS DEPICTS THE RIGHT TRENDS

11.1 Telegate believes that the CBA provides a good prediction of the development of the DQ market in terms of identifying the right trends. However it is insufficient in that it does not take into account the value of improvements in the range and quality of services that true competition will deliver, nor does it look at other benefits, such as in relation to increased employment opportunities. Telegate also feels that the CBA's assumptions as to usage, calls generated by DQ, call suppression and user confusion under Option 3 are excessively negative and not supported by the evidence available relating to similar measures undertaken in other countries. Finally, the CBA in all Options sets the number of network calls generated by a DQ call at an arbitrarily low level. (Q11)

12. BILLING/COLLECTION

12.1 Telegate would like to take this opportunity to point out one further possible point of conflict between incumbents and new providers: billing and collection. This issue has proved controversial already in other European States where the incumbents refused access of DQ service providers to the essential facilities billing and collection in order to prevent competition in DQ services. In all cases, it proved that the access to these facilities was technically unproblematic. Telegate believes that UK operators, who operate in a more advanced telecommunications market than other European telecoms operators, will offer these services on a commercially viable basis. However, Telegate wants to point out, that if this is not the case, fast regulatory action might be required.

13. CONCLUSIONS

For the reasons set out above, Telegate believes that the only way in which effective competition can be introduced into the UK DQ market and therefore the only way in which UK consumers will be able to feel the benefits of such competition is by the adoption of Option 3. The other two options and the variations discussed in the consultation document are inadequate to ensure that there will be sufficient interest in entry into the UK DQ market for such benefits to accrue to UK consumers. Telegate therefore urges Oftel to adopt Option 3 as discussed in this submission.

Responses to the specific questions posed in the consultation

Q1 Which of the options (if any) do you prefer and why?

Telegate is strongly of the opinion that only Option 3 could provide suitable conditions for competition to develop and for consumers to feel the benefits of such competition. The reasoning behind this view is set out more fully above.

Q2 Do you feel that, on balance, withdrawing 192 (as in Options 2 and 3) would be to the benefit or detriment of consumers?

Withdrawal of 192 would benefit consumers more than retention of 192. Even though there may be some degree of "user confusion" this is significantly outweighed by the benefits that consumers would receive by the introduction of competition which could not enter the market successfully if 192 (or any other default) were retained. Also, the 197 and 143 which are are used by Vodafone and Cable & Wireless respectively must be withdrawn in order to minimise user confusion. This is discussed in greater detail at sections 6 and 7 above.

Q3 If the 192 code were to be removed, do you feel consumers would benefit most from a new default code (as in Option 2) or by having no default code (as in Option 3)?

Following from the answer given to Q2 above, Telegate believes that consumers would benefit most from there being no default code.

Q4 Do you have an opinion as to whether a five- or six-digit code for accessing Directory Enquiry services would be more appropriate?

In the light of experience in other countries which have liberalised DQ services it is clear that a five digit code is more than adequate. In addition, having as short an access code number range as practicable will provide consumers with the benefit of having easy to remember numbers for DQ services. See paragraphs 9.5-9.7 above for further details.

Q5 Do you believe offering pre-selection of directory enquiry services would be of benefit to consumers?

Offering pre-selection of DQ services would be likely to hinder the development of true competition and in particular handicap entry by independent DQ providers who were not also telecoms operators. Due to this, Telegate believes that offering pre-selection of DQ services would not benefit consumers in the UK. See paragraphs 8 above for further details.

Q6 Do you feel that implementing 118XX(X) as an access code for DQ services is important or would a system based on 192XX(X) be an acceptable and desirable alternative?

118XX(X) would be better than 192XX(X) for the reasons given above at paragraphs 9.3-9.4.

Q7 If Option 2 or 3 was progressed, how long to you think a period of parallel running should last? How would you envisage the parallel running working in practice?

The period of parallel running should be as short as possible. Although a period of 15 months was used in Germany, Telegate feels that a shorter period may well be practicable in the UK, given that the parallel running period for the National Code and Number Change was 6 months and that this was a much more extensive and complex change to the whole range of telephony services than any of the options proposed for DQ services. This is considered in more depth at section 10 above.

Q8 If 192 were to be withdrawn, how should the new number range be publicised? How should the industry fund and manage a central information source and campaign and for how long?

Telegate believes that the new number range will be more than adequately publicised by the commercial marketing efforts of existing DQ operators and new entrants as long as the conditions for free and fair competition are in place. That is, if Option 3 were to be adopted, there would be no need for a central campaign and indeed that such a campaign could itself stifle natural and active competition. This could be backed up by running recorded voice announcements on 192 during the parallel running phase which would explain the transition to the new number range and provide on an equal and random basis two alternative numbers within the new range for callers to 192 to use. This is explained further in paragraphs 10.5-10.7 above.

Q9 How should DQ calls from Payphones be tackled? Would it be acceptable if a number of BT's payphones could not access the full 118XX(X) range (if that range were implemented for other telephone lines)?

Although it would be desirable for all DQ services to be reachable by payphone from the beginning in the light of the fact that implementing the whole new numbering range on all public payphones in a very short time frame would lead to high costs, we believe that a gradual phasing in of all payphones is suitable. However, we believe that this would not lead to "user confusion", as the number can be displayed in the cabin itself. We suggest that parallel running of 192 with the ability to connect in-call to one of the randomly selected 118XX numbers could continue in relation to "old" payphones until they are upgraded to enable direct calls to such number ranges. This solution would provide an incentive to BT to upgrade such payphones sooner rather than later. This would not only ensure that from the start of liberalisation payphone users would be able to benefit from DQ competition but also provide the collateral benefit to the most disadvantaged consumers (i.e. most probably those

in remote areas or who do not have their own phone) of improving the quality of payphones available generally. This could be funded by an increase to the Payphone Access Charge levied generally in respect of all payphone calls.

Q10 How should any new number range be allocated to potential DQ service providers?

Telegate believes that the only truly fair method of allocating numbers within the new range will be to hold a lottery, with placings in the lottery to determine the order in which DQ operators may choose from the remaining unallocated numbers. Following the initial lottery, numbers could be allocated on a first come first served basis. Numbers which have been allocated but not used within a certain period from allocation should be returned to the group of unallocated numbers so that they may be recycled for use by any future entrant. This is considered in more detail at paragraphs 9.7 above.

Q11 Do you think the assumptions the CBA makes are valid? Are there other options that you think would be more appropriate?

The CBA is correct insofar as it makes visible the right trend. However, it is insufficient as it does not take into account (a) effects such as increased employment and (b) intangible assets such as better and more DQ services. For example, in Germany and Italy, Telegate already received awards such as Employer of the Year and the Greenfield price for the foreign company with the most innovative business idea and the potential to create high employment. Also in the UK, Telegate already has created in anticipation of competition a Call Center in Dumfries (300 employees possible). Another independent DQ provider, Conduit has done the same in Cardiff (4500 possible employees according to Conduit's press release).

The CBA (p.45) itself states that "it is not possible on the basis of the current CBA to choose between the Options" because credible variances in the assumptions lead to very different outcomes.

To illustrate the above point further, we would like to show some further amendments of the assumptions that were missed by OVUM. These assumptions make it even clearer that Option III would be more beneficial than the other options.

(A) Network Calls Generated

OVUM assumes on suggestion of the incumbent BT, that the number of network calls generated by a DQ call is 2. OVUM writes: (p. 40): "BT research suggests that historically every DQ call lead to 2.5 to 3.0 network calls on average. But BT believes that this effect is now getting weaker. We assume 2.0 network calls per DQ call." Why does BT believe this? Why should it change? Such a change has not occurred in Germany in similar circumstances. If we play the scenario with 2.5 and 3 network calls the difference between the scenario widens even more towards Option 3.

NPV of benefits	Option 1	Option 2	Option 3 MS1	Option 3 MS2	Option 3 composite
Total NPV (£m) (2.0 calls)	19	19	204	-139	33
Total NPV (£m) (2.5 calls)	21	24	219	-133	43
Total NPV (£m) (3 calls)	23	28	234	-127	54

(B) Call Suppression during parallel running

We believe that there will be no suppression of calls during the time of parallel running as assumed in the analysis of Option 2. Consumers will call the default code, hear the new numbers (as per Telegate's suggestion that during the parallel running period 192 should announce two randomly selected DQ numbers from the new range) and dial them because they want to make an enquiry. There is no reason believing that people who are informed about the new number would not continue with their inquiry just because they have to dial a new number.

Therefore, it must be assumed that during the time of parallel running the number of calls to the DQ services will in fact be rising as DQ would for the first time be a service which is actively promoted by competitors rather than "just being there". This will especially be true during the initial promotion period coinciding with the commencement of parallel running where a number of different DQ service providers will be spending a vast amount of money on marketing in order build consumer awareness of their services and brand and therefore to position themselves advantageously in the marketplace. Both existing telecoms operator DQ services and independent DQ services are likely to benefit from this as telecoms operators will need to ensure that their offerings are sufficiently competitive to make sure that they do not lose too significant an amount of DQ call revenue to new entrants.

NPV of benefits	Option 1	Option 2	Option 3 MS1	Option 3 MS2	Option 3 composite
Total NPV (£m)	19	19	204	-139	33
Total NPV (£m) (without call suppression during 1 year parallel running)	19	25	220	-89	65
Total NPV (£m) (without call suppression during 2 years parallel running)	19	19	238	-35	102

(C) Reduced Period of Parallel Running

The parallel running should be reduced. If we reduce the time of the parallel running to a year as was done in Ireland the cost picture looks significantly different.

NPV of benefits	Option 1	Option 2	Option 3 MS1	Option 3 MS2	Option 3 composite
Total NPV (£m) (2 years parallel running)	19	19	204	-139	33
Total NPV (£m) (1 year parallel running)	19	25	217	-126	46

(D) User confusion is Reducing over time

Telegate believes that the estimated level of "user confusion" is pessimistically high and in any event will not lead to call suppression for an indefinite period. It can be assumed that as time goes by more and more consumers will learn the new numbers until these numbers will be as engraved in consumers minds as is the current 192 code at the moment.

Therefore, we assume that also starting high "user confusion" is reduced every year down to two percent and that it cannot be extended to eternity.

NPV of benefits	Option 1	Option 2	Option 3 MS1	Option 3 MS2	Option 3 composite
Total NPV (£m) (2.0 calls)	19	19	204	-139	33
Without User confusion to eternity	19	19	204	-78	63
Decreasing User Confusion by .5 percent a year to two percent user confusion	19	19	322	17	170

From the analysis and the individual reasonable alterations to the assumptions shown above it can be seen that Option 3 is even more beneficial than appears from the Ovum CBA. This means that in reality it is likely to deliver not only the greatest levels of consumer benefit, but also that the absolute levels of such benefits will significantly exceed those forecast by the CBA. This conclusion is even clearer when one combines the various amended assumptions

into a new model to show the total effects of Option 3 in a more realistic setting. When this is combined with the other non-price benefits of competition such as in relation to service quality and increased employment, which would also be proportionately increased by the adoption of Option 3, it is clear that Option 3 is the most advantageous path for liberalisation of the UK DQ market.